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CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

1970 ANNUAL REPORT

300 Arran St. Lambert (Montreal) Quebec

DIRECTORS

Edward Bayer	Jerry J. Friedman	Jerry Sone
Austin C. Beutel	Simms Shuber	Frank D. White

COMPANIES

Momar (Canada) Limited
Canadian Permag Products Ltd.
Ritemar Chemical Industries Ltd.
Neo Drug Company
Northern Realty Company
La Compagnie Paulette Inc.

Auditors: Richter, Usher & Vineberg

Attorneys: Mendelsohn, Rosentzveig, Shacter, Taviss, Shayne, Greenstein & Levitt

Bankers: Royal Bank of Canada
Canadian Imperial Bank of Commerce

Transfer Agent and Registrars: Crown Trust Company

Listed: Canadian Stock Exchange

CANTOL DIVERSIFIED LTD.

See notes

TO THE SHAREHOLDERS:

In 1970, the new management of your Company successfully completed several important transactions, and by year-end our operations were concentrated in two profitable divisions — Industrial and Specialty Chemicals and Drug Supply.

During the year the Company disposed of its interests in the cleaning and uniform rental businesses. Shareholders are aware of the sale of Total Service Inc., a former subsidiary operating a uniform rental business. In addition, the company sold for cash the Canada Carpet Cleaning division, and the balance of the Paul Service Stores and White Spot Cleaning establishments have been sold or closed.

As you were advised earlier, Edward Bayer and Jerry Sone, the general managers of the Chemical Division, were elected directors and to the offices of President and Vice-President respectively of Cantol. As well, Simms Shuber and Jerry Friedman were elected directors to fill vacancies created by the resignation of certain directors elected at the last annual meeting.

The financial statements for the past year form part of this annual report. In our view, Cantol is a more compact, manageable, enterprise today than 12 months ago.

Your management faces the future with optimism and will continue to work to earn and retain the confidence and loyalty of the Company's shareholders and employees.

On behalf of the Board

E Bayer — Edward Bayer — President

Austin C. Beutel — Chairman

Montreal, April 1971

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1970

ASSETS

CURRENT			
Cash and short term deposits		$461,384	
Accounts receivable (after allowance for doubtful accounts)		404,542	
Inventories, at the lower of cost or net realizable value		228,625	
Balances of sales price of equipment and franchise rights, current portion		44,021	
Prepaid expenses, supplies and miscellaneous assets		35,982	
			$1,174,554
BALANCES OF SALES PRICE OF EQUIPMENT AND FRANCHISE RIGHTS, net of current portion (Note 3)			55,933
FIXED, at cost (Note 4)			
Land, building, equipment, vehicles and alterations to leased premises	$293,235		
Accumulated depreciation and amortization	184,213	109,022	
Revenue producing properties	620,000		
Accumulated depreciation	22,624	597,376	
			706,398
EXCESS OF COST OF INVESTMENT IN SUBSIDIARY COMPANIES OVER THEIR NET BOOK VALUE AT TIME OF ACQUISITION			1,548,335
			$3,485,220

APPROVED ON BEHALF OF THE BOARD:

EDWARD BAYER)
AUSTIN C. BEUTEL) DIRECTORS

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1970

LIABILITIES

CURRENT		
Accounts payable and sundry liabilities	$ 279,300	
Income taxes payable	150,047	
Current maturities of term debt	17,655	
Current portion of provision for estimated losses on closed stores	30,000	
		$ 477,002
TERM DEBT (note 5)		364,163
PROVISION FOR ESTIMATED LOSSES ON CLOSED STORES, net of current portion (Note 6)		45,000
DEFERRED INTEREST INCOME		8,393
DEFERRED INCOME TAXES (Note 7)		7,400
MINORITY INTEREST IN SUBSIDIARY COMPANY		12,158

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 8)		
Authorized:		
1,500,00 common shares of $0.20 par value		
Issued:		
627,396 common shares	125,479	
CONTRIBUTED SURPLUS	3,340,494	
RETAINED EARNINGS	1,600	
	3,467,573	
192,420 COMMON SHARES HELD BY A SUBSIDIARY COMPANY (Note 2)	896,469	
		2,571,104
		$3,485,220

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Cantol Diversified Ltd.

We have examined the consolidated statement of financial position of Cantol Diversified Ltd. and its subsidiaries as at December 31, 1970 and the consolidated statements of operations, retained earnings, contributed surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the consolidated results of their operations and source and use of their operations and source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
February 26, 1971

RICHTER, USHER & VINEBERG
CHARTERED ACCOUNTANTS

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1970

Balance — beginning of year	$579,586
Net loss for the year	577,986
BALANCE — END OF YEAR	$ 1,600

See accompanying notes to consolidated financial statements

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1970

Balance — beginning of year	$3,327,161
Excess of proceeds over par value of capital stock issued during the year (Note 8)	13,333
BALANCE — END OF YEAR	$3,340,494

See accompanying notes to consolidated financial statements

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1970

SALES (of continuing operations)		$2,383,933
COSTS AND EXPENSES (of continuing operations)		
Cost of sales, selling, general and administrative expenses	$1,917,948	
Depreciation and amortization	28,139	
Interest — term debt	18,161	
— other	2,754	
Interest income	(8,926)	
		1,958,076
OPERATING INCOME BEFORE INCOME TAXES (of continuing operations)		425,857
Taxes on income		218,200
		207,657
Minority interest in earnings of subsidiary company		771
NET EARNINGS FROM CONTINUING OPERATIONS		206,886
Net loss from discontinued operations		323,546
LOSS BEFORE EXTRAORDINARY ITEMS		116,660
Extraordinary items, net of income taxes (Note 9)		461,326
NET LOSS		$ 577,986
PER COMMON SHARE (Note 13)		
Net earnings from continuing operations		$0.48
Net loss from discontinued operations		0.75
Loss before extraordinary items		0.27
Extraordinary items		1.07
Net Loss		$1.34

See accompanying notes to consolidated financial statements

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1970

FUNDS PROVIDED			
Proceeds from disposition of assets of discontinued operations, net of additions to fixed assets		$266,682	
Disposal of investment in and advances to a subsidiary		896,497	
Decrease in balances of sales price and mortgages receivable		89,828	
Issue of common shares		14,492	
			$1,267,499
FUNDS USED			
Operations			
Net loss for the year		577,986	
Charges not involving an outlay of funds — .			
Depreciation and amortization	$ 95,989		
Net loss on disposition of assets of discontinued operations	386,326		
Non-Current portion of provision for estimated losses on closed stores	45,000		
Minority interest in earnings of subsidiary company	771	528,086	
		49,900	
Credits not resulting in a source of funds —			
Deferred interest	15,144		
Deferred income taxes	4,569	19,713	
		69,613	
Repayment of term debt		63,369	
192,420 common shares of Cantol acquired by a subsidiary company (Note 2)		896,469	
Working capital of subsidiary sold		647,199	
			1,676,650
DECREASE IN WORKING CAPITAL			409,151
Working capital - beginning of year			1,106,703
WORKING CAPITAL — END OF YEAR			$ 697,552

CANTOL DIVERSIFIED LTD.

AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

NOTE 1 — CONSOLIDATION

The consolidated financial statements include the accounts of all the subsidiary companies, with provision for the interest of minority shareholders.

The cost of shares purchased exceeded the book value at the dates of acquisition by $1,548,335. This amount has been included under the caption "Excess of cost of Investments in Subsidiary Companies over their Net Book Value at time of Acquisition" and is not being amortized.

On consolidation, all significant inter-company transactions are eliminated.

NOTE 2 — BUSINESSES SOLD AND DISCONTINUED

During the year, the shares of Total Service Inc. and the business and substantially all of the net assets of Canada Carpet and American Cleaners were sold. In addition, the remaining dry cleaning stores and heel bars were either sold or closed.

192,420 common shares of Cantol and a nominal cash settlement were received by Northern Realty Company (a subsidiary company) as consideration for the sale of all of the shares of Total Service Inc. together with its indebtedness to Cantol. The shares thus acquired have been recorded at an amount equal to the underlying net book value of the assets sold.

The results of operations of the businesses sold and discontinued have been shown separately in the Consolidated Statement of Operations under the caption "Net loss from discontinued operations". Gross revenue of discontinued operations amounted to $1,129,422.

The net loss on disposition of assets of the discontinued operations, net of income tax benefits of $104,343, is included as an extraordinary item in the Consolidated Statement of Operations.

CANTOL DIVERSIFIED LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

NOTE 3 – BALANCES OF SALES PRICE OF EQUIPMENT AND FRANCHISE RIGHTS

The balances of sales price represent the balances due from franchise operators and others in respect of the sale of equipment and franchise rights. These amounts are due as follows:

1971	$44,021
1972	22,164
1973	20,885
1974	12,884

All of the aforesaid balances arose from sales made in prior years. As previously reported, it was the company's practice to record income in the year of sale; for income tax purposes, the company reports income from franchise sales on the basis of amounts received in the year. The amount of income subject to tax in future years is inconsequential.

NOTE 4 – FIXED ASSETS

Depreciation and amortization are computed at various rates on the declining balance method. The fixed assets are classified as follows:

	Cost	Accumulated Depreciation and Amortization	Net Book Value	Depreciation Rates
Land	$396,687	$ –	$396,687	–
Buildings	384,247	114,660	269,587	5%
Equipment	78,766	52,891	25,875	10% - 20%
Vehicles	32,194	21,653	10,541	20% - 30%
Alterations to leased premises	21,341	17,633	3,708	10% - 20%
	$913,235	$206,837	$706,398	

CANTOL DIVERSIFIED LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

NOTE 5 – TERM DEBT

Particulars of the term debt are as follows:

	Balance December 31, 1970	Current Maturity	Net
7½% mortgage, payable in monthly instalments of $1,597 including interest; balance payable in 1976	$175,095	$ 6,448	$168,647
11% mortgage, payable in monthly instalments of $425 including interest; balance payable in 1974	36,723	1,207	35,516
Notes payable, representing the balance of purchase price of shares in a subsidiary company	170,000	10,000	160,000
	$381,818	$17,655	$364,163

NOTE 6 – PROVISION FOR ESTIMATED LOSSES ON CLOSED STORES

The program of disposal or closing of the remaining dry cleaning stores and heel bars has been completed. A provision has been made for the estimated losses on leases and other miscellaneous charges to be incurred in connection with the closed stores. Although these future costs cannot be finally determined at the present time, management believes that the provision represents a fair and reasonable determination of the ultimate costs.

NOTE 7 – DEFERRED INCOME TAXES

The company and its subsidiaries follow the income tax allocation basis of accounting, whereby the provision for income taxes relates to the accounting income for the period. The accumulated tax reductions applicable to future years, resulting from claiming tax depreciation in excess of book depreciation appears in the consolidated statement of financial position under "Deferred Income Taxes".

CANTOL DIVERSIFIED LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

NOTE 8 – STOCK OPTIONS

(a) Under a stock option plan established in 1969 for certain executives of a subsidiary (excluding officers and directors of Cantol Diversified Ltd.), 10,000 of the authorized and unissued common shares of the company were reserved for issue up to May 1, 1974 in accordance with the provisions of the plan. The options are exercisable in instalments of up to 2,000 shares per annum at 90% of the closing price on the last business day before the date of exercise of the option; these options are cumulative and are contingent upon employment at the option date.

(b) In 1970, a stock option plan was established for certain employees of subsidiary companies (excluding officers and directors), whereby 12,200 of the authorized and unissued common shares of the company were reserved for issue until May 15, 1971 at $2.50 per share; during 1970, the company received total payments of $14,492. Under the terms of the stock option plan, the company is obligated to issue 5,796 shares (of which 930 had been issued to date); for purposes of financial statement presentation, the 5,796 shares have been shown as issued.

NOTE 9 – EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

Net loss on disposition of assets of discontinued operations, net of income taxes	$386,326
Reserve for estimated losses on closed stores	75,000
	$461,326

NOTE 10 – TAX LOSSES

The company has losses for tax purposes applicable to future years amounting to approximately $213,000. The tax effect of these losses is not recognized in the accounts.

NOTE 11 – LEASE OBLIGATIONS

In addition to its leases on plant facilities, the company holds leases on forty-three store locations, none of which exceeds seven years' duration. The gross liability for such rentals aggregates approximately $331,000; forty of these locations have been subleased. Provision has been made in the accounts of the company for the estimated future costs relating to these leases. (See Note 6).

NOTE 12 – REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid during the year by the company and its subsidiaries to directors and officers amounted to $136,955, of which $46,155 relates to and has been included in "net loss from discontinued operations".

NOTE 13 – PER COMMON SHARE DATA

Per common share data are based on the weighted average number of shares outstanding during the year; in this computation, the 192,420 common shares of Cantol owned by Northern Realty Company were treated as though such shares were not issued and outstanding. The exercise of the balance of the outstanding stock options would not have a material dilutive effect on per common share data.

NOTE 14 – COMPARATIVE FIGURES

In 1969, the company changed its fiscal year from August 31 to December 31, thereby reporting results of operations for a twelve month period ended August 31 and for a four month period ended December 31. During 1970, as explained in Note 2, the company disposed of one subsidiary company and also sold the business and substantially all of the assets of certain other operations. In view of the foregoing, the financial statements do not include a comparison with 1969 as a meaningful comparison is not possible.